

InFocus by Harden:

Trade Credit Insurance and COVID-19

Prior to the pandemic, the U.S. economy was strong, growing, and credit was wide open. However, when many sectors of the economy shut down to “flatten the curve” and “stop the spread,” the U.S. hit the proverbial wall, leaving some, but not all, businesses without credit insurance protection.

Early in the COVID-19 outbreak, three of the largest credit insurance carriers, *Euler*, *Coface* and *Atradius*, applied lessons learned from the great recession and came to the table quickly to support policyholders by allowing relaxed reporting requirements, as well as increasing time frames within which to file claims. This was done to allow policy holders more flexibility.

TRADE CREDIT INSURANCE

Also known as credit insurance or export credit insurance.

A form of insurance that transfers risk for businesses seeking to protect their accounts receivable against nonpayment.

As credit lines adjust for the current demand as well as risk, information and communication with credit departments and underwriters are key to maintaining levels of coverage. What previously mattered most is now in the rearview mirror. Currently, one must look beyond financials to access real-time data on a company by asking questions such as:

- Is the company open?
- At what percent are they operating?
- To whom are they selling?
- Are they selling to restaurants or other businesses in the food service industry?
- Is the business tied to hospitality, aviation or oil & gas?

In the instance where coverage is reduced, cancelled or non-renewed, policy holders are fully protected per terms of their policy for all shipments made as well as future shipments for a period. With or without credit insurance, credit lines are shrinking or have disappeared altogether until the risk is assessed.

To that end, many insurers have effectively communicated with policyholders, allowing for flexibility and tools for reopening, benefiting both parties. The insurance industry recognizes that flexibility could pre-empt claims.

Brought to you by HARDEN and in collaboration with Parker Freedman, President at [ARI Global](#)

“DIALING IN ON THE RIGHT SIZE INSURED CREDIT LIMIT IS A REAL TIME PROCESS IN THE CURRENT ENVIRONMENT AND WHAT WE’RE SEEING IS AS LONG AS YOUR BUYER IS PERFORMING, AS WELL AS HAVING BACK UP PURCHASE ORDERS, THE CREDIT INSURANCE INDUSTRY IS RESPONDING IN KIND TO SUPPORT CLIENTS.”

~ Parker Freedman



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Moving Forward

Extraordinary circumstances call for extraordinary collaboration. Up-to-date information on the health of debtor(s) is critical to retain coverage. Policyholders, their broker and underwriters must pursue a comprehensive understanding of any outstanding accounts receivable as well as active purchase orders.

Given the current conditions of the credit insurance market, real time financial data and a narrative of current operations are requirements for nearly all underwriters. With a complete picture, underwriters demonstrate a willingness to respond quickly to provide coverage.

For many businesses, trade credit insurance is a vital piece of their insurance portfolio. Contact HARDEN today and one of our experienced insurance professionals will work with your business to find the right trade credit coverage.



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FREQUENTLY ASKED QUESTIONS

What is insured?

Trade credit insurance is designed to protect businesses against the risk of nonpayment of goods or services by their buyers—whether it be for a domestic or international sale. Essentially, policies protect against nonpayment as a result of insolvency of the buyer or nonpayment.

What is the goal of trade credit insurance?

For insurers, the goal is to protect their clients against unforeseen and unexpected losses.

Can I insure specific buyer in my portfolio?

Yes, provided there is a reasonable and rational selection methodology. For example, you desire to cover all exposures greater than x or cover all foreign exposures or you have concentration issues. Trade Credit Insurance is not designed for the worst risk in your portfolio. Rather, it is for circumstances unforeseen and unexpected NOT known or imminent. A domestic credit insurance policy will address any payment risks created by local buyers. Such policies typically have low premium rates and a relatively simple structure.

What is political risk?

As it pertains to credit insurance, it is typically the inability to convert currency. Political risk can also refer to things like war, terrorism, riots or actions by local governments (e.g., changing import or export regulations suddenly). In relation to trade credit insurance, political risk is an event or situation that is outside you or your buyer's control and obstructs the payment or delivery of goods. Typically, trade credit insurers that protect against export risks will also offer political risk cover.

What are the two main types of credit insurance carriers?

- 1. Limits underwriter** - Whether you have 10 buyers or 10,000 buyers, they can underwrite and monitor all of them.
- 2. Excess of Loss insurance carrier** - They underwrite your largest exposures and then underwrite your internal credit procedures where you approve credits up to a certain limit. They protect policyholders provided agreed upon guidelines are followed. This is called a discretionary credit limit.

Are trade credit insurance policies standard or tailor-made?

They should be all tailor made to your unique wants and needs. This is where a broker who specializes in this product brings the most value.

How do insured credit limits work?

During the underwriting process, the policy holder asks for a certain policy line. The underwriter will analyze information and either approve it in full, approve in part or decline the risk altogether.

How much does a trade credit insurance policy cost?

There are a variety of factors in determining the cost of a credit insurance policy. The most common are country risk, risk of the debtor's probability of default, risk rated average of the portfolio, terms of sale (the longer the tenor, the higher the risk) as well as risk sharing in a policy. Please call HARDEN for an estimate.